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'WIDELY-EXPECTED MONETARY POLICY COMMITTEE (MPC) DECISION TODAY TO REDUCE INTEREST RATES BY 25 BASIS POINTS, ALTHOUGH MINIMAL, IS POSITIVE FOR THE ECONOMY', SAYS NWU BUSINESS SCHOOL ECONOMIST PROF RAYMOND PARSONS.

'The widely expected decision by the Monetary Policy Committee today to reduce the repo rate by 25 basis points, although minimal, remains positive for the economy. Even a small cut in interest rates at this stage in the business cycle sends a helpful message that borrowing costs have been marginally eased to support the economy. Both domestic and global economic trends in recent months have pointed towards lower rates.

The psychological effect of the interest rate cut on consumer and business confidence will possibly be greater than its real effect on the economy. Other costs, such as electricity tariffs, are in any case rising faster than borrowing costs have fallen. With the SARB having now yet again reduced its 2019 growth forecast, this time from 1% to 0.6%, there needs to be a further robust debate on what is the future appropriate monetary policy response in these economic circumstances.

A cut of 50 basis points at this juncture would have had more economic impact, yet with small risk. The burden of proof for a central bank in any case cannot be absolute certainty. In a weak economy, with an acknowledged subdued economic environment, inflationary expectations are unlikely to edge higher. And the MPC's latest decision only reverses the controversial rate increase in November 2018, a period which the SARB had previously indicated was one in which monetary policy could have been more accommodative.

The SARB is nonetheless right to again warn that SA must not look to monetary policy to do the heavy lifting to turn the economy around. Only fundamental structural economic reforms will enable the economy to strongly break out of its current 'low growth trap', and move on to a higher growth path. The urgent implementation of pro-growth reform policies and projects therefore remains essential.'

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